

ECKERT SEAMANS CHERIN & MELLOTT, LLC

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T.R.A. DOCKET ROOM

December 22, 2003

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Docket Manager
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, TN 37243

Re: Citynet Tennessee LLC
Docket No. 03-00469

Boston

Haddonfield, NJ

Harrisburg

Morgantown, WV

Philadelphia

Pittsburgh

Washington, D.C.

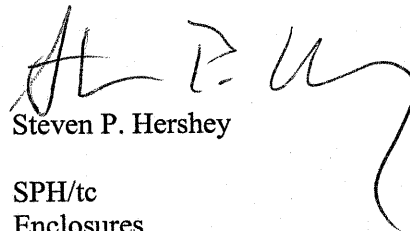
Dear Sir/Madam:

Enclosed for filing is an original and 13 copies of the following financial information:

1. Citynet Holding, LLC Balance Sheet Statement of Operations, Statement of Members' (Deficit) and Statement of Cash Flow;
2. Citynet Holding, LLC Detail Schedule of Operating Expenses;
3. Citynet, LLC Balance Sheet, Statement of Operations, Statement of Members' (Deficit) Consolidated Statements of Cash Flows, and Detail Schedules of Operating Expenses;
4. Citynet Columbus, LLC Balance Sheet, Statement of Operations, Statement of Members' Equity, Statement of Cash Flows, and Detail Schedule of Operating Expenses.

The documents were previously provided in electronic format to Ms. Patsy Fulton, Utility Rate Specialist.

Very truly yours,



Steven P. Hershey

SPH/tc
Enclosures

cc: Andrew Fusco, Esquire
Maxine DiRenza, Legal Assistant

CITYNET HOLDING, LLC
BALANCE SHEET

September 30, 2003

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ASSETS

CURRENT ASSETS

Cash	\$ 875
Trade accounts receivable	<u>77,959</u>
Total current assets	<u>78,834</u>

PROPERTY AND EQUIPMENT, at cost

Construction in progress	<u>14,643,810</u>
	<u>14,643,810</u>

OTHER ASSETS

Receivable from Citynet Columbus, LLC	848,338
Other receivables	4,516
Deposits	150,025
Intangible asset	<u>320,000</u>
	<u>1,322,879</u>

\$16,045,523

LIABILITIES AND MEMBERS' (DEFICIT)

CURRENT LIABILITIES

Accounts payable	\$ 505,649
Accrued expenses	40,230
Deferred rent	138,466
Notes payable - related parties	<u>19,470,032</u>
Total current liabilities	<u>20,154,377</u>

MEMBERS' (DEFICIT)

(4,108,854)

\$16,045,523

SEE ACCOUNTANT'S COMPILATION REPORT

CITYNET HOLDING, LLC
STATEMENT OF OPERATIONS

For the nine months ended September 30, 2003

Revenue	\$ 169,633
Operating expenses	<u>3,710,926</u>
Gross profit (loss)	<u>(3,541,293)</u>
Other income (expense)	
Interest income	26,942
Interest expense	<u>(594,503)</u>
	<u>(567,561)</u>
Net (loss)	<u><u>\$(4,108,854)</u></u>

SEE ACCOUNTANT'S COMPILATION REPORT

CITYNET HOLDING, LLC
STATEMENT OF MEMBERS' (DEFICIT)

For the nine months ended September 30, 2003

Balance, December 31, 2002	\$ -
Net (loss)	<u>(4,108,854)</u>
Balance, September 30, 2003	<u>\$ (4,108,854)</u>

SEE ACCOUNTANT'S COMPILATION REPORT

CITYNET HOLDING, LLC
STATEMENT OF CASH FLOWS

For the nine months ended September 30, 2003

CASH FLOWS FROM OPERATING ACTIVITIES

Net (loss)	\$ (4,108,854)
Adjustments to reconcile net (loss) to net cash (used in) operating activities:	
(Increase) in assets:	
Trade accounts receivable	(77,959)
Deposits	(150,026)
Increase in liabilities:	
Accounts payable	505,649
Accrued expenses	40,230
Deferred rent	138,465
Net cash (used in) operating activities	<u>(3,652,494)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Receivable from Citynet Columbus, LLC	(848,338)
Receivable from Citynet Fiber Network, LLC	(4,517)
Purchase of intangible asset	(320,000)
Construction in progress	<u>(14,643,810)</u>
Net cash (used in) investing activities	<u>(15,816,664)</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Proceeds from related party loans	<u>19,470,032</u>
Net cash provided by financing activities	<u>19,470,032</u>

Net increase in cash 875

Cash	
Beginning	-
Ending	<u>\$ 875</u>

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Cash payments for interest	<u>\$ -</u>
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SEE ACCOUNTANT'S COMPILATION REPORT

CITYNET HOLDING, LLC
DETAIL SCHEDULE OF OPERATING EXPENSES

For the nine months ended September 30, 2003

Rent expense	\$ 1,409,178
Salaries and wages	1,070,392
Professional fees	339,985
Utilities	255,074
Insurance	171,507
Management fee expense	152,430
Payroll taxes	78,633
License and permits	50,436
Miscellaneous	48,473
Ethernet expense	40,646
Repairs and maintenance	37,254
Cost of equipment sold	24,556
Travel expense	15,573
Vehicle maintenance	10,814
Postage and delivery	3,721
Office supplies	2,155
Bank service charges	98
	<u>\$ 3,710,926</u>

SEE ACCOUNTANT'S COMPILATION REPORT

CITYNET, LLC
(A Limited Liability Company)

BALANCE SHEET
September 30, 2003 and 2002

ASSETS	2003	2002
CURRENT ASSETS		
Cash	\$ 113,763	\$ 180,397
Trade accounts receivable, net of allowance for doubtful accounts of \$54,332.66 and \$0, respectively	265,202	822,714
Prepaid expenses and deposits	6,092	42,022
Loan to member	162,007	843,298
Other receivables	209,199	-
Total current assets	<u>756,263</u>	1,888,431
PROPERTY AND EQUIPMENT, at cost		
Building	28,283	28,283
Leasehold improvements	216,247	216,247
Computer and network equipment	2,480,884	2,434,245
Office furniture and equipment	84,070	84,070
	<u>2,809,484</u>	2,762,845
Less accumulated depreciation	1,540,591	901,312
	<u>1,268,893</u>	1,861,533
OTHER ASSETS		
Receivable from Citynet Columbus, LLC	2,819,562	2,190,000
Investment in Citynet Columbus, LLC	4,736,381	-
Receivable from Citynet Holding, LLC	4,710,330	-
Investment in Citynet Holding, LLC	(2,828,817)	-
Goodwill (net of amortization of \$23,385)	502,778	502,778
Loan to member	54,296	40,920
Loan costs (net of amortization of \$11,321.50 and \$5,776, respectively)	17,709	23,254
Customer accounts (net of amortization of \$455,922.00 and \$187,670, respectively)	982,373	1,250,625
	<u>10,994,612</u>	4,007,577
	<u>\$ 13,019,768</u>	<u>\$ 7,757,541</u>

LIABILITIES AND MEMBERS' (DEFICIT)	2003	2,002
CURRENT LIABILITIES		
Bank line of credit borrowings	\$ 499,767	\$ 500,000
Trade accounts payable	950,406	154,943
Accrued expenses	69,444	65,455
Current portion of long-term notes payable	1,248,066	1,173,516
Short term note payable	16,356	-
Notes payable - related parties	11,779,172	2,603,948
Total current liabilities	<u>14,563,211</u>	<u>4,497,862</u>
 LONG-TERM DEBT		
Long-term portion of notes payable	<u>1,994,750</u>	<u>3,235,697</u>
	<u>1,994,750</u>	<u>3,235,697</u>
 MEMBERS' (DEFICIT)	 <u>(3,538,193)</u>	 <u>28,902</u>
	 <u>\$ 13,019,768</u>	 <u>\$ 7,762,461</u>

SEE ACCOUNTANT'S COMPILATION REPORT

CITYNET, LLC
(A Limited Liability Company)

STATEMENTS OF OPERATIONS
For the nine months ended September 30, 2003 and 2002

	2003	2002
Operating revenue	\$ 4,895,124.00	\$ 4,392,095
Operating expenses	<u>(4,323,341.00)</u>	<u>(3,852,834)</u>
(Loss) income from operations	<u>571,783.00</u>	<u>539,261</u>
Other income (expense)		
Interest income	236,113.00	7,078
Interest expense	(581,385.00)	(189,624)
(Loss) on investments	<u>(2,954,201.00)</u>	<u>-</u>
	<u>(3,299,473.00)</u>	<u>(182,546)</u>
Net (loss)	<u>\$ (2,727,690.00)</u>	<u>\$ 356,715</u>

CITYNET, LLC
(A Limited Liability Company)

STATEMENTS OF MEMBERS' (DEFICIT)
For the nine months ended September 30, 2003 and 2002

	2003	2002
Balance, beginning	\$ (810,503)	\$ (327,813)
Net (loss)	<u>(2,727,690)</u>	<u>356,715</u>
Balance, ending	<u>\$ (3,538,193)</u>	<u>\$ 28,902</u>

CITYNET, LLC

CONSOLIDATED STATEMENTS OF CASH FLOWS
For the nine months ended September 30, 2003 and 2002

	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES		
Net (loss)	\$ (2,727,690)	\$ 356,715
Adjustments to reconcile net (loss) to net cash (used in) operating activities:		
Amortization of loan cost included in interest expense	581,385	-
Depreciation and amortization	648,367	772,219
Loss on investments	2,954,201	-
(Increase) decrease in assets		
Trade accounts receivable	294,874	(390,608)
Deposits and prepaid expenses	(13,128)	(40,033)
Other receivables	209,199	-
Increase (decrease) in liabilities		
Trade accounts payable	301,307	(395,842)
Accrued expenses	9,222	3,656
Deferred rent	-	-
Net cash (used in) operating activities	<u>\$ 2,257,737</u>	<u>\$ 306,107</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Receivable from Citynet Columbus, LLC	\$ 571,011	\$ (2,190,000)
Investment in Citynet Columbus, LLC	125,379	-
Receivable from Citynet Holding, LLC	(4,710,330)	-
Investment in Citynet Holding, LLC	(2,828,817)	-
Acquisition Cost	-	(4,920)
Purchase of intangible asset	-	(1,200,805)
Purchase of property and equipment	(33,272)	(354,358)
Net cash (used in) investing activities	<u>\$ (6,876,029)</u>	<u>\$ (3,750,083)</u>

	2003	2002
CASH FLOWS FROM FINANCING ACTIVITIES		
Draws on line of credit	\$ 124,757	\$ -
Increase in line of credit	-	399,172
Proceeds from short term loan	16,356	(2,666)
Loans to member	(37,528)	(884,218)
Proceeds from related party loan	3,631,401	2,600,000
Repayment of related party loan	-	(3,457)
Proceeds from long-term bank borrowings	-	1,929,353
Repayments of long-term note payable	881,390	(533,753)
Repayments of obligations under capital leases	-	(68,320)
Net cash provided by financing activities	<u>4,616,376</u>	<u>3,436,111</u>
Net decrease in cash	(1,916)	(7,865)
Cash		
Beginning	<u>115,679</u>	<u>188,262</u>
Ending	<u>\$ 113,763</u>	<u>\$ 180,397</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash payments for interest	<u>\$ 195,992</u>	<u>\$ 188,916</u>

CITYNET, LLC
DETAIL SCHEDULES OF OPERATING EXPENSES

For the nine months ended September 30, 2003 and 2002

	2003	2002
Payroll expense	\$1,069,724	\$ 945,223
Rent expense	78,571	77,215
Telephone expense	1,086,285	835,170
Depreciation and amortization expense	648,367	772,219
Dedicated access expense	388,084	450,108
Professional fees	164,891	35,087
Insurance expense	170,853	111,983
Utilities expense	63,559	12,235
Customer fee expense	70,455	86,530
Retirement plan	69,136	66,929
Bad debt expense	54,333	69,916
Miscellaneous	45,527	37,468
Credit card expense	48,203	29,549
Advertising expense	46,499	111,713
Postage and shipping	36,858	37,834
Travel expense	11,154	11,821
Satellite expense	16,734	-
Contract labor	12,013	20,065
License and permits	5,673	-
Other taxes	66,475	11,322
Payroll taxes	98,180	91,188
Vehicle maintenance	-	-
Office supplies	13,458	23,824
Dues and subscriptions	-	-
Bank service charges	10,540	-
Repairs	4,333	-
Meals and entertainment expense	204	1,787
Storage	2,793	1,708
Cleaning and maintenance	2,399	1,244
Donations	6,000	1,510
Office expense	31,074	6,122
Political contributions	-	3,000
Finance charges	966	64
	<u>\$4,323,341</u>	<u>\$3,852,834</u>

SEE ACCOUNTANT'S COMPILATION REPORT

CITYNET COLUMBUS, LLC
BALANCE SHEET

September 30, 2003

ASSETS	
CURRENT ASSETS	
Cash	\$ -
Other receivables	315,000
Total current assets	<u>315,000</u>
PROPERTY AND EQUIPMENT, at cost	
Buildings and improvements	435,000
Leasehold improvements	9,510
Computers and network equipment	189,360
Office furniture and equipment	7,430
Vehicles	<u>28,539</u>
	669,839
Accumulated depreciation	<u>(50,627)</u>
	619,212
Construction in progress	<u>7,646,682</u>
	<u>8,265,894</u>
OTHER ASSETS	
Permit deposits	<u>89,480</u>
	89,480
	<u>\$ 8,670,374</u>
LIABILITIES AND MEMBERS' EQUITY	
CURRENT LIABILITIES	
Accounts payable	\$ 13,071
Current portion of long-term debt	4,891
Notes payable - related parties	<u>4,639,735</u>
Total current liabilities	<u>4,657,697</u>
LONG-TERM DEBT	
	<u>17,618</u>
MEMBERS' EQUITY	
	<u>3,995,419</u>
	<u>\$ 8,670,734</u>

SEE ACCOUNTANT'S COMPILATION REPORT

CITYNET COLUMBUS, LLC
STATEMENT OF OPERATIONS

For the nine months ended September 30, 2003

Revenue	\$ -
Cost of sales	<u>-</u>
Gross profit (loss)	-
Operating expenses	<u>185,381</u>
(Loss) from operations	<u>(185,381)</u>
Other income (expense)	
Interest expense	(162,347)
Gain on disposal of equipment	<u>53</u>
	<u>(162,294)</u>
Net (loss)	<u><u>\$ (347,675)</u></u>

SEE ACCOUNTANT'S COMPILATION REPORT

CITYNET COLUMBUS, LLC
STATEMENT OF MEMBERS' EQUITY

For the nine months ended September 30, 2003

Balance, December 31, 2002	\$4,343,094
Net (loss)	<u>(347,675)</u>
Balance, September 30, 2003	<u>\$3,995,419</u>

SEE ACCOUNTANT'S COMPILATION REPORT

CITYNET COLUMBUS, LLC
STATEMENT OF CASH FLOWS

For the nine months ended September 30, 2003

CASH FLOWS FROM OPERATING ACTIVITIES

Net (loss)	\$ (347,675)
Adjustments to reconcile net (loss) to net cash (used in) operating activities:	
Depreciation	44,870
Gain on disposal of equipment	(53)
(Increase) in assets:	
Other receivables	(120,000)
Increase in liabilities:	
Accounts payable	35
Net cash (used in) operating activities	<u>(422,823)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Construction in progress	(324,756)
Purchase of property and equipment	<u>(96,130)</u>
Net cash (used in) investing activities	<u>(420,886)</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Proceeds from related party loans	841,719
Repayments of long-term debt	<u>(3,381)</u>
Net cash provided by financing activities	<u>838,338</u>

Net (decrease) in cash (5,371)

Cash

Beginning 5,371

Ending \$ -

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Cash payments for interest \$ 1,922

SUPPLEMENTAL DISCLOSURE OF NON CASH ACTIVITIES

Settlement of disputed accounts payable
to Gateway Columbus, LLC \$1,435,417

SEE ACCOUNTANT'S COMPILATION REPORT

CITYNET COLUMBUS, LLC
DETAIL SCHEDULE OF OPERATING EXPENSES

For the nine months ended September 30, 2003

Professional fees	\$ 115,410
Depreciation expense	44,870
Management fee expense	15,000
Licenses and permits	5,097
Property tax expense	3,283
Lease expense	1,049
Utilities	428
Bank service charges	189
Miscellaneous	55
	<u>\$ 185,326</u>

SEE ACCOUNTANT'S COMPILATION REPORT